

Message Text

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ACTION EB-08

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TAGS: ENRG, EGEN, SA

SUBJECT: ARAMCO AND ITS EFFORTS TO INCREASE PRODUCTION--
THOUGHTS AND OBSERVATIONS

1. SUMMARY AND PREFACE: EARLIER CONGEN MESSAGES REPORT SAB/ARAMCO DECISION TO PRESS FORWARD HARD AND QUICKLY TO INCREASE PRODUCTION. NOW, IN MED-FEBRUARY, POST IS ABLE TO SEE THIS EFFORT STARTING TO GROW AND GAIN MOMENTUM. POST, BELOW, SUMMARIZES THESE EFFORTS AND SUGGESTS THAT GOAL FOR THIS YEAR SEEM NEARLY ASSURED BUT PRODUCTION INCREASE FOR 1978 SEEMS CLOUDED BY NUMBER OF UNKNOWNNS. ONE NEEDS TO UNDERSTAND THAT ALTHOUGH ARAMCO CAME INTO BEING TO BE ONLY A PRODUCING COMPANY, PRODUCTION OF CRUDE HAS TAKEN A BACK SEAT SINCE 1974 AS SAUDI ARABIA HAS SERVED AS OPEC'S SWING PRODUCER WHILE WORLDWIDE DEMAND FOR OIL HAS BEEN ON PLATEAU. ARAMCO, DURING THAT PERIOD, WAS GIVEN RESPDNSIBILITY TO IMPLEMENT TWO SAG DEVELOPMENT PROJECTS - COMPLEX GAS GATHERING PROGRAM AND ELECTRIFICATION. OIL COMPANY NOW FINDS IT VERY DIFFICULT TO SHIFT GEARS TO INCREASE PRODUCTION AS IT APPROACHES MID-STREAM IN CARRYING THOSE TWO PROJECTS TO IMPLEMENTATION. END SUMMARY.

2. EXECUTIVES AND PRODUCTION PEOPLE WE TALK WITH IN ARAMCO ARE
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DEDICATED TO TASK OF MAXIMIZING PRODUCTION. ALTHOUGH THEY NOW BELIEVE THAT HEAVY SEAS (WHICH HAVE CAUSED COMPANY TO REDUCE LOADINGS) IN FIRST SEVEN WEEKS OF 1977 WILL REQUIRE PRODUCTION TO REMAIN BELOW TARGETTED AVERAGE-PER-DAY GOAL OF 10 MILLION BPD FIGURE DURING FIRST QUARTER 1977, THEY FIRMLY INSIST THAT PRODUCTION TARGETS FOR REMAINDER OF YEAR ARE ATTAINABLE. BY END OF SECOND QUARTER 1977, PRODUCTION SHOULD BE AT 11 MILLION PBD

AND 11.5 MILLION BY END OF JULY WHEN NEW SAFANIYA CRUDE PIPELINE COMES INTO SERVICE. IN THE LAST HALF OF 1977 CRUDE PRODUCTION WILL SLOWLY CREEP UP TO AN AVERAGE OF 11.8 MILLION BPD FOR THE FOURTH QUARTER. THAT FIGURE IS LOOKED UPON BY NUMBER OF PRODUCTION PEOPLE AS BEING TO CONSERVATIVE AS THEY BELIEVE A 12 MILLION BPD LEVEL CAN BE ATTAINED IF THEY "HUFF AND PUFF."

3. OTHERS IN COMPANY, PARTICULARLY IN RESERVOIR MANAGEMENT, COMMENT THAT 12 MILLION BPD FIGURE AND ABOVE CAN ONLY BE OBTAINED IF THEY "BLOW AND GO" -- THAT IS, PRODUCE WITHOUT REGARD TO MAINTENANCE OF GAS PRESSURE IN ARAMCO'S HUGH GHAWAR FIELD -- THE WORLD'S LARGEST OIL FIELD. ON SHORT TERM BASIS, ARAMCO CAN ATTAIN HIGH PRODUCTION LEVELS BUT AT COST OF ONLY BEING ABLE TO DRAW HALF THE CRUDE THAT IS THERE WITHOUT GOING TO VERY EXPENSIVE SECONDARY RECOVERY METHODS. ARAMCO'S WATER INJECTION PROGRAM HAS BEEN DELAYED BY OTHER PROGRAMS WITH HIGHER PRIORITIES AND EVEN IF ITS SCHEDULE HAD BEEN MAINTAINED, IT IS DOUBTFUL THAT SYSTEM WOULD BE AVAILABLE IN TIME TO INCREASE PRODUCTION TOMMWEASONABLE DEGREE BY NEXT YEAR. FURTHERMORE, PIPELINES AND GAS-OIL SEPARATORS (GOSP) NEED TO BE INSTALLED. FOR EXAMPLE, IT TAKES ABOUT TWO-YEARS FOR AN ON-SHORE GOSP TO BE PUT IN SERVICE AND LONGER FOR ONE LOCATED OFF-SHORE. IN VIEW OF FOREGOING, THERE IS SOME SKEPTICISM AMONG OBSERVERS HERE THAT ARAMCO CAN ATTAIN THE 14 MILLION BPD FIGURE PROJECTED FOR END OF 1978. IN ANY CASE, ARAMCO IS JUST BEGINNING TO MOUNT EFFORT AND OUTLOOK FOR PRODUCTION LEVELS IN 1978 WILL BE SEEN BETTER LATER IN YEAR AS THIS YEAR'S PRODUCTION PROGRAM MOVES FORWARD.

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4. RIGS - RIG UTILIZATION PROVIDES BEST PICTURE OF INCREASE EMPHASIS BOTH SHORT-TERM AND LONG-TERM - ARAMCO PLACES ON PRODUCTION. OIL COMPANY CURRENTLY HAS 23 RIGS IN COUNTRY. PLANS ARE BEING IMPLEMENTED TO INCREASE NUMBER TO 29 BY MID-YEAR AND OF THE ADDITIONAL SIX, THREE WILL BE ON WORKOVERS AND THREE ON EXPLORATION HOLES. AS REPORTED ELSEWHERE, EMPHASIS IS NOW ON PRODUCTION DRILLING. ONLY ONE RIG, LOCATED IN NEARLY INACCESSIBLE "EMPTY QUARER", REMAINS ON EXPLORATION ASSIGNMENT. COMMENT OF ONE ARAMCO DRILLING EXECUTIVE THAT "FEW MONTHS AGO 75 PERCENT OF DRILLING WAS FOR EXPLORATION AND WORKOVERS AND NOW 90 PERCENT IS FOR PRODUCERS" ILLUSTRATES SHIFT IN EMPHASIS. ONE SUPPLIER OF RIGS, WHO DESCRIBES ARAMCO DRILLING PROGRAM AS "PRETTY HOT MARKET" FOR ITS SERVICES, IS ALSO IN PROCESS OF UP-GRADING ITS RIGS.

5. EXPLORATION - ARRIVAL OF NEW RIGS WILL PERMIT ARAMCO TO RESTORE ACTIVITY TO ITS EXPLORATION PROGRAM. SIX TO SEVEN OF NEWLY-CONTRACTED RIGS ARE GOING INTO EXPLORATION (REMAINDER INTO WORK-

OVER WORK). RENEWED EMPHASIS ON EXPLORATION IS RELATED TO LONG-TERM GROWTH OF COMPANY RESERVES AND, PRIMARILY, TO THE SOON-TO-BE-SIGNED SAG AGREEMENT WITH FOUR OWNER COMPANIES WHICH WILL REQUIRE THEM TO FIND NEW OIL IF THEY ARE TO MAINTAIN THEIR SUPPLY POSITION IN SAUDI ARABIA. CONSEQUENTLY NEW EMPHASIS ON EXPLORATION HAS LEAD TO ROUNDS OF R&D MEETINGS UNDER AEGIS OF ARAMCO'S HOUSTON OFFICE. WQ SAG ASST DEPUTY PETROLEUM MINISTER AL-ZAMIL JUST RETURNED FROM THREE WEEKS OF CONSULTING WITH SENIOR R&D REPS OF SOCAL, TEXACO, EXXON AND MOBIL. ONE RESULT OF MEETING IS THAT GEOPHYSICAL SERVICE INT'L (GSI) HAS BEEN CONTRACTED TO LAUNCH SOPHISTICATED 3-D PROSPECTING PROGRAM THAT GSI HAS ONLY APPLIED PREVIOUSLY IN NORTH SEA AND TEXAS. GSI EXPLORATION FIELD WORK WILL BE COMPLETED QUICKLY BUT IT WILL TAKE SIX MONTHS FOR TEXAS COMPANY TO PROCESS DATA INTO USEABLE FORM TO PLOT DRILLING PROGRAM.

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6. MEANWHILE BIGGEST PROBLEM CONFRONTING ARAMCO, AS IT SEEKS SHORT AND MEDIUM-TERM PRODUCTION INCREASES, IS NEED TO RE-STRUCTURE MANY CONFLICTING PRIORITIES WITHIN COMPANY. TO UNDERSTAND MAGNITUDE OF THIS PROBLEM, ONE MUST RECOGNIZE THAT ARAMCO, DESPITE FACT IT IS BASICALLY A PRODUCING COMPANY, HAS GIVEN CRUDE PRODUCTION LOWEST PRIORITY IN RECENT YEARS. BEGINNING IN 1975, COMPANY HAS USED MANY OF ITS RESOURCES AND ASSIGNED GOOD SHARE OF ITS MANAGEMENT TALENT TO IMPLEMENT THE SAG-FINANCED GAS-GATHERING PROGRAM GIVEN TO ARAMCO TO BUILD BY THE GOVERNMENT. SECOND PRIORITY WITHIN COMPANY, ALSO SAG FINANCED AND GIVEN TO ARAMCO TO PUT TOGETHER, IS ESTABLISHMENT AND OPERATION OF NEW CONSOLIDATED ELECTRIC COMPANY THAT IS JUST NOW GETTING UNDER WAY.

7. THESE TWO HIGH-PRIORITY PROJECTS PLACE HEAVY BURDEN ON Y
IZY
AND STRAIN RESOURCES. HOWEVER, PRODUCTION IS ONCE AGAIN A HIGH
PRIORITY MATTER AND COMAPNY IS FINDING IT VERY HARD TO SHIFT GEARS
MID-WAY IN ITS HARD CLIMB UPWARDS TO GET GAS-GATHERING AND ELECTRIC-
POWER PROJECTS MOVING. ARAMCO VP FOR MATERIALS HAS ADVISED US
THAT COMPANY NOW HAS THREE PRIORITIES - ALL OF EQUAL URGENCY -
AND HE FROWNS AS HE CONTEMPLATES HOW HE CAN GET ANY MORE THROUGH
AN ALREADY OVER-BURDENED SUPPLY PIPELINE. AS IF THIS EXECUTIVE
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DID NOT HAVE ENOUGH PROBLEMS, ARAMCO ORDERED A FEW WEEKS AGO A
RESTRUCTURING OF ITS PROCUREMENT POLICIES TO PREVENT ITSELF FROM
BEING CAUGHT SHORT IF COMPANY'S PESSIMISTIC PROGNOSTICATIONS
REGARDING PASSAGE BY CONGRESS OF RESTRICTIVE ANTI-BOYCOTT
LEGISLATION PROVE CORRECT. WHERE PROCUREMENT GUIDE LINES HAVE
NOT YET
BEEN DEFINED, IT COULD LEAD LESS SOURCING IN US, AND
DELAYS IN RECEIVING PRODUCTION EQUIPMENT AND SUPPLIES SHOULD OCCUR
AS PROCUREMENT ARRANGEMENTS ARE ALTERED.

8. BIGGEST PROBLEM IN SHIFTING PRIORITIES IS TRAINED MANPOWER -
A PROBLEM THAT WAS DIFFICULT BEFORE ORDER TO INCREASE ARAMCO
PRODUCTION WAS GIVEN. THE CRITICAL ELEMENT IN THE PROBLEM IS
SEVERE SHORTAGE OF SPACE TO HOUSE WORKERS, ENGINEERS AND TECH-
NICIANS AS ARAMCO'S WORK FORCE GROWS AND PERCENTAGE OF LOCAL-
HIRES (I.E. SAUDIS) DECLINES. PRIORITIES IN PROVIDING EMPLOYEE
ACCOMMODATIONS HAVE ONLY GOTTEN TOUGHER AS DRIVE TO INCREASE
CRUDE PRODUCTION GAINS MOMENTUM. AN EXACERBATED ARAMCO VP FOR GAS-
GATHERING PROJECT TOLD US LAST WEEK THAT HE HAD JUST RETURNED FROM
"THE THREE HUNDREDTH" MEETING TO ESTABLISH HOUSING PRIORITIES
AND NO FINAL AGREEMENT WAS ATTAINED.

9. A POSSIBLE SOLUTION TO MANPOWER PROBLEM IS TO FLY MEN IN
FROM US. ARAMCO'S TRAFFIC CHIEF IS PREPARING PLANS WHICH INVOLVE
WET-LEASING OF AIRCRAFT TO SHUTTLE ONE-THOUSAND WORKERS IN AND OUT
OF US OR EUROPE ON 28 DAY IN AND 28 DAY OUT OR 42 DAY IN AND 18 DAY
OUT SCHEDULES DEPENDING ON JOB CLASSIFICATION. START-UP PLAN IS
TO SHUTTLE 300 MEN, AND AIRCRAFT WILL BE CONFIGURED TO AIRLIFT
BADLY NEEDED SUPPLIES AND EQUIPMENT. COST FACTOR ON THIS APPROACH
LOOKS GOOD (ALTHOUGH THERE IS SOME DOUBT ABOUT THE HUMAN FACTOR)
AS IT COSTS A MINIMUM OF US \$20,000 A YEAR (PLUS TRANSPORT OF
FAMILY MEMBERS) TO HOUSE A US OR EUROPEAN WORKER HERE IN FAMILY
QUARTERS. PLANS ARE GOING AHEAD BUT THERE HAS BEEN A SNAG GAINING
PERMISSION OF SAUDI'S NATIONAL AIR CARRIER, SAUDIA, TO OPERATE
SERVICE USING FOREIGN CARRIER.

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10. COMMENT: IN GENERAL, WE SEE ARAMCO AS A COMPANY THAT IS PRESSING HARD TO INCREASE PRODUCTION AS RAPIDLY AS IT CAN. "QUICK FIXES" AIMED AT INCREASING PRODUCTION IS THE ORDER OF THE DAY. LOOKING AHEAD BEYOND 1977, HOWEVER, WE ARE LEFT WITH IMPRESSION THAT LONGER-TERM DECISIONS TO INCREASE PRODUCTION ARE MOVING A BIT SLOWER. IT APPEARS THAT ARAMCO'S MANAGEMENT MAY WELL BE PONDERING THE RUMOURS CIRCULATING THAT AN OPEC AGGREEMENT ON PRICING WILL BE CONCLUDED BY MID-1977. CONSEQUENTLY, THEIR DECISIONS ON LONGER-TERM PROGRAMS TO INCREASE PRODUCTION WILL BE MADE WHEN IT IS CLEARER HOW CLOSE OR HOW FAR APART OPEC MEMBERS REMAIN ON THE PRICING QUESTION. LUCIUS

NOTE BY OC/T: MESSAGE AS RECEIVED.

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